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SUBJECT: SPECIAL ENVOY GRAY'S MEETINGS WITH EU OFFICIALS

¶1. (SBU) Summary. On September 23-24 Special Envoy for Eurasian Energy C. Boyden Gray met with EU officials to discuss the way forward on the EU's Southern Corridor strategy. Energy Commissioner Piebalgs said that the Nabucco project remains a high priority for the EU but that negotiations with Turkey have not been encouraging. Piebalgs realizes the importance to Turkey of opening the Energy Chapter and plans to lobby Cyprus and the Council to this end. Ambassador Edmund Duckwitz, German Permanent Representative to the European Union, told SE Gray that Germany still views Russia as a reliable partner and argued that Germany needs all three pipelines -- Nord Stream, South Stream, and Nabucco. Dr. Klaus Gretschnann, High Representative Solana's Energy Advisor, gave a starkly different view from Duckwitz saying that Russia fears a public criticism over Gazprom's dominance. He also doubts that Competition Commissioner Kroes will take any action against Gazprom. Commission Director General for Enlargement Michael Leigh (Please Protect) told SE Gray that while opening the Energy Chapter with Turkey would not change much in concrete terms, it would be symbolically important in terms of demonstrating momentum in the EU-Turkey relationship and timely in light of high level EU discussions on energy security. End Summary.

¶2. (SBU) On September 23-24 Special Envoy for Eurasian Energy C. Boyden Gray met with EU officials to discuss the way forward on the EU's Southern Corridor strategy.

Energy Commissioner Piebalgs

¶3. (SBU) EU Energy Commissioner Andris Piebalgs told SE Gray that the Nabucco pipeline will have a high priority in the Commission's Strategic Energy Review, which is to be completed this fall. Politically, Piebalgs is not giving up on ambitions for Nabucco, but getting Turkey to back away from their current lift-off demands for a transit deal is critical. Piebalgs stressed that giving Turkey lift-off rights for transit gas is a dead end with the Azeris. Piebalgs said the Commission has no problem with Azerbaijan and Turkey reaching a bilateral agreement for gas, but said he could not accept Turkey "stealing" the gas through a lift-off clause. Piebalgs feels that Turkey must agree to some sort of a transit-tariff-plus arrangement. He also believes that using the "Caspian Development Corporation" idea would enable the EU and Turkey to go together to Turkmenistan to get additional gas supplies.

¶4. (SBU) Piebalgs acknowledged the Turkish desire to open the Energy Chapter and said he was going to work with Cyprus and the Council to see if he can push this forward. According to Piebalgs, lift-off rights are the red line for the EU. The opening of the Energy Chapter is a priority under the French presidency, but Cyprus remains the principal

impediment to this process. Piebalgs said he planned to work on persuading the Cypriots. On Azerbaijan, Piebalgs said the Russians are putting immense pressure on them to sell their gas to Russia, but that Azerbaijan is not as vulnerable to Russian pressure as it looks. Piebalgs emphasized that Azerbaijan is key to any Caspian strategy and that "if we loose in Azerbaijan, we can forget about Turkmenistan."

15. (SBU) Piebalgs said the Southern Corridor negotiations are coming to a crisis point. If the Southern Corridor concept is to move forward to reality he feels negotiations must succeed this year. Piebalgs said the EU is willing to do whatever it needs to help Turkey with its electricity generation needs, but stressed that Turkey has a history of announcing big plans for nuclear energy projects but then fails to deliver. Piebalgs downplayed Turkish objections to burning coal on environmental grounds. He said the Turks did not join the Energy Charter treaty and aren't subject to EU environmental constraints. He added that the EU and the U.S. could use Turkey as a testing ground for carbon capture and storage (CCS) technology for coal-fired power plants and Turkey could always buy Clean Development Mechanisms (CDMs) for the plants. In any scenario, Piebalgs feels gas will always be more expensive than coal.

16. (SBU) The EU is willing to discuss alternatives on the transit negotiations with Turkey, but so far there is nothing new coming out of the Turkish side. Piebalgs had hoped that the CDC idea would help win over the Turks and said that the EU was willing to pursue it even though it would go against the EU's competition laws.

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17. (SBU) Publicly Piebalgs is continuing to push the Nabucco pipeline; privately he doesn't care if the solution ends up as Nabucco, TGI, or TAP. To Piebalgs, the game is not about volumes. The game is about the principal of moving Azeri gas to Europe and the important thing is to get the gas flow started. Piebalgs spoke briefly about the proposed White Stream gas pipeline from the Caspian through Ukraine. The Ukrainians are pushing for this pipeline, but realistically Piebalgs doubts that Azerbaijan would ever agree to ship its gas via Ukraine.

18. (SBU) Commenting on the EU's support for the Trans-Saharan gas pipeline from Nigeria, Piebalgs said the project is getting big headlines but faces immense difficulties, and he does not believe it is realistic. Piebalgs said his advice to companies and member states is to forget about Iranian gas for now, because of the obvious political problems. Likewise, Piebalgs believes that Iraqi gas will not be available to Europe in the short term. Piebalgs said that in the short term "all we really have is Azerbaijan." Turkmenistan is not in a hurry and is watching carefully what happens in Azerbaijan.

German Permanent Representative

19. (SBU) In a meeting with Ambassador Edmund Duckwitz, German Permanent Representative to the European Union, Duckwitz echoed the position that Germany (Europe) needs all three pipelines -- Nord Stream, South Stream, and Nabucco. Duckwitz said the EU needed to diversify its gas routes as well as its gas sources and stressed Russian/European codependence as gas supplier and consumer. According to Duckwitz, Germany continues to view Russia as a reliable gas supplier. He said he understood that some countries in Eastern Europe have more concerns about the Russians, but that this was not something that affected Germany.

110. (SBU) Duckwitz stressed that Germany is not overly dependent on Russia, getting only 23 percent of oil and 21 percent of its gas from Russia. (Note: Eurostat, the Commission's statistical arm, reports Russia's share of German oil imports at about 30 percent and that of German gas

imports at about 42 percent. End Note.) Duckwitz views the Russian actions in Georgia as a "complication," but hoped this would be resolved with EU observers on the ground and continued negotiations with Russia.

Klaus Gretschemann

¶11. (SBU) Dr. Klaus Gretschemann, High Representative Solana's Energy Advisor, told SE Gray that the EU is sticking to its Southern Corridor Strategy post Georgia. The Council is concerned, however, about the potential for Russian control over pipelines in Georgia. Whether or not Russia targeted pipelines during the conflict is immaterial, the important thing is the threat that they could have and could do so in the future. Gretschemann has heard from several member states who believe the attack on the BTC pipeline in Turkey prior to the Georgia conflict was at the very least encouraged by Russia, if not planned and executed by Russia. The Council will be holding discussions on how to react to this threat.

¶12. (SBU) Gretschemann said that the next European Council will focus on security. Despite French Presidency desires to move forward on the Climate and Energy Package few member states want to discuss green house gases as they are preoccupied with security. According to Gretschemann, "Nobody gives a damn about CO2, they all want to have their energy safe." As such, Gretschemann expects the October 14-15 Energy Council to focus only on security of supply both in geostrategic terms and in terms of energy solidarity. According to Gretschemann, member state positions on these issues are fluid at the moment. They could reach a general agreement and move forward on the Third Energy Package, or it could all fall apart.

¶13. (SBU) Queried about using EU competition policy against Gazprom, Gretschemann confirmed the story that EU President Barroso had raised the subject with then President Putin and "had his head taken off." According to Gretschemann, the Russians fear a public debate more than they fear any potential action the EU might take. Gretschemann stressed that the EU is not convinced of the value of using the "hammer" approach in negotiations with Russia. Gretschemann also candidly commented that EU Competition Commissioner

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Neelie Kroes is on her way out (not expected to be part of the next Commission) and Gretschemann does not expect her to be willing to take any bold action against Gazprom before she leaves.

Opening the Energy Chapter with Turkey

¶14. (SBU) Special Envoy Gray also met with Commission Director General for Enlargement Michael Leigh (Please Protect) in Brussels September 24. Gray told Leigh the Turkish Deputy Foreign Minister wanted the EU to open the Energy Chapter of the acquis (chapter 15) for negotiations with Turkey. Leigh responded that the Commission and the French presidency would like to open the Energy Chapter. The hold-up is the Cypriots, who have dug in their heels since the EU began to discuss the possibility of opening the chapter last Spring. Cypriot objections initially involved licensing fees and other technicalities, but have become a matter of principle ) essentially a political block on the opening of the chapter. Leigh said that given the fact the other 26 member states have no objection to opening the chapter, perhaps concerted pressure on the Cypriots could help.

¶15. (SBU) Gray asked whether the U.S. could help with this, to which Leigh responded that quiet, behind-the-scenes discussions with the French presidency and other member states might be worthwhile. He noted in particular the Greeks, who have the ability to lean on the Cypriots and who stand to benefit from improved dialogue with Turkey on energy issues. (Note: a UK contact (Please Protect) separately told

USEU that Greece might be reluctant to push Cyprus on opening this chapter because of territorial sea concerns. However, the contact noted rumors that French President Sarkozy might be willing to lean on Cypriot President Christofias to open the chapter, as France would like to improve its bilateral relationship with Turkey, especially on energy. End Note.) Leigh said that, while the opening of the energy chapter would not change much in concrete terms, it would be symbolically important in terms of demonstrating momentum in the EU-Turkey relationship and timely in light of high level EU discussions on energy security.

¶16. (SBU) Comment. The remarks by Duckwitz are disappointing but not unexpected. The EU focus on energy security laid out by Piebalgs and Gretschnann, on the other hand, are encouraging. Piebalgs appears to have a hard task ahead on trying to get the EU to open the Energy Chapter with Turkey. And whether or not the EU can move forward on the Third Energy package and on energy security in general will depend on just how much control over energy supplies the member states are willing to cede to Brussels. End Comment.

Silverberg

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